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**APPROVED:**

**DATE:**

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**Procedure 5-01**  
**INTERNAL QUALITY CONTROL PROGRAM**

**I. PURPOSE**

To ensure audit activities and reports comply with the U.S. Comptroller General's "Government Auditing Standards – Standards for Audit of Governmental Organizations, Programs, Activities, and Functions".

**II. GENERAL**

The Office of the City Auditor conforms to the auditing standards established by the U.S. General Accounting Office. These standards are promulgated in a publication, "Government Auditing Standards – Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (also known as the "Yellow Book").

To ensure that audit activities and reports of the Office of the City Auditor comply with Government Auditing Standards, the City Auditor has established an internal quality control program consisting of four separate reviews:

1. In-Charge/ Supervising Auditor Workpaper Review
2. Audit Standards Plan Preparation and Review
3. Independent Report Review
4. Supervising Auditor Review

As an external quality control measure, the San Jose City Charter also provides for a biennial independent performance audit of the Office of the City Auditor. Section 805.2 of the City Charter states:

*"The Council shall contract with an independent firm, which has no other contracts with the City, to conduct a performance audit of the City Auditor's office at least every two years. The report of the performance audit shall be available to the public."*

Because the biennial performance audit is to be independent, this procedure will not cover the audit steps to be followed by the external auditor.

To ensure all audit quality steps are completed, the audit staff should complete Form 5-03-1, Objective A: Audit Administration.

**III. DEFINITIONS**

**Audit Standards**

Pertain to the auditor's professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

### Internal Quality Control Program

Operating policies and procedures established by the audit organization to provide reasonable assurance that it: (a) has established, and is following, adequate audit policies and procedures and (b) has adopted, and is following, applicable auditing standards.

## **IV. PROCEDURE**

The following describes the procedure for each of the reviews in the City Auditor Quality Control Program.

### **IV-1. IN-CHARGE/SUPERVISING AUDITOR WORKPAPER REVIEW (Milestone #M-25)**

The In-Charge/Supervising Auditor is responsible for ensuring that the audit is performed in accordance with Government Auditing Standards and the City Auditor Policies and Procedures Manual. The In-Charge Review includes assessing the requirements of the audit assignment. Subject to the approval of the City Auditor, the In-Charge Auditor may delegate the In-Charge Review procedures to another member of the audit team provided that person is sufficiently experienced and competent to perform the task(s).

#### **Purpose**

To ensure that workpapers are properly prepared and provide adequate support of the work performed and the audit evidence gathered during the audit.

#### **Background**

The Supervising Auditor reviews the workpapers for form and content, ensuring that the audit evidence reflected in the audit workpapers can pass the test of evidence. To pass, evidence should be sufficient, competent, and relevant. Evidence is sufficient if there is enough of it to support the auditors' findings. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding. Evidence is competent to the extent that it is consistent with fact.

The Supervising Auditor is also responsible for ensuring that the quality control reviews (Audit Standards Review and Independent Report Review) are performed on time and adequately documented.

### Procedure

Audit Staff	<ol style="list-style-type: none"><li>1. As the audit progresses, label and number all audit workpapers.</li><li>2. At the conclusion of the audit fieldwork, complete the audit workpapers. Ascertain that the workpapers provide adequate support to the audit work performed and the audit evidence gathered during the audit.</li><li>3. Schedule a Workpaper Review meeting with the Supervising Auditor.</li></ol>
In-Charge Auditor/Staff	<ol style="list-style-type: none"><li>4. Prepare audit workpapers in accordance with Procedure 5-02 (Workpaper Organization and Control). At various points during the audit (at least at the end of each audit objective section), reviews his or her workpapers and those of his or her assistants and ascertains that audit work is in accordance with Government Auditing Standards as identified in the approved Audit Standards Plan. Initials all workpapers to indicate review and approval.</li><li>5. Records any review comments on the Review Sheet Form 5-02-1.</li><li>6. Discusses review comments with other team members and resolves comments. (Not applicable for assignments with only one auditor.)</li></ol>
Supervising Auditor	<ol style="list-style-type: none"><li>7. Review the workpapers for form and content and ascertain that the audit evidence reflected in the audit workpapers can pass the test of evidence. Provide the audit staff a Workpaper Review Sheet listing all comments and questions regarding the audit workpapers.</li></ol>
Audit Staff	<ol style="list-style-type: none"><li>8. Respond in writing (in the space provided in the Workpaper Review Sheet) to the Supervising Auditor's comments and questions. Make changes to the workpapers as necessary.</li></ol>
Supervising Auditor	<ol style="list-style-type: none"><li>9. Review the audit staff's responses to the Workpaper Review Sheet comments. Cross out all comments or questions that are resolved.</li></ol>
Audit Staff	<ol style="list-style-type: none"><li>10. File the Workpaper Review Sheets in the Audit Administration File (Section A of the workpapers)..</li></ol>

### IV-2. INDEPENDENT REPORT REVIEW (Milestone M-26)

The Independent Report Review is a critical quality control element in audit report processing. The reviewer's job is to examine the report's logic and facts and to ensure that the report is complete, accurate, objective, convincing, and as clear and concise as the subject permits. The reviewer is expected to verify every statement of fact by tracing it back to the supporting workpapers. Evidence must meet tests of sufficiency, relevance, and competence. The workpapers should reflect the details of the evidence and disclose how it was obtained.

The Preliminary Draft Report is referenced by the In-Charge Auditor and reviewed by the Independent Report Reviewer prior to being sent to the Auditee. Because changes or additions to the draft may result from the Exit Conference, a Final Revised Draft Report will also need to have the changed and new sections subjected to a final Independent Report Review. This final review occurs before the Draft Report is sent to the Auditee for response. The In-Charge Auditor will reference the changed and new sections and the Independent Report Reviewer will review the references in the same manner as was done for the Preliminary Draft Report.

### **Purpose**

To ascertain that every statement of fact in the audit report is supported by audit evidence documented in the audit workpapers and that opinions and conclusions are logical and consistent.

### **Background**

The Independent Report Review is a critical quality control element in audit report processing. The reviewer's job is to examine the report's logic and facts. The reviewer is expected to verify every statement of fact by tracing it back to the supporting workpapers. The workpapers should reflect the details of the evidence and disclose how it was obtained.

### **Procedure**

Supervising Auditor and City Auditor	1. Assign an auditor who was not involved in the audit project's fieldwork and report preparation to be the Independent Report Reviewer.
Audit Staff	2. At the conclusion of the audit fieldwork, complete the audit workpapers. Ascertain that the workpapers provide adequate support to the audit work performed and the audit evidence gathered during the audit. For statements of fact, reference the audit report draft to the audit workpapers by noting the workpaper number on the left margin of the report draft next to each line(using a red pen or pencil) or at the bottom of the pages using footnotes or annotations. 3. References the workpapers with a red "R" on the right margin adjacent to the appropriate sections 4. For statements of opinion or conclusion, write "OPINION" or "CONCLUSION" using the above method. on the left margin of the report draft adjacent to the appropriate line or on the bottom of each page by using annotations or footnotes. 5. Provides the Independent Report Reviewer with a referenced copy of the draft and all indexed workpapers needed to complete the review.
Independent Report Reviewer	6. Review the report's conceptual structure, spelling, grammar, and punctuation. Verify that facts flow logically into conclusions and recommendations. Trace every statement of fact to the supporting workpaper, including dates, numbers, percentages, computations, titles, proper names, quotes, and legal citations.

	<p>Determines whether the appropriate evidence was obtained, based on the guidelines provided by the Government Auditing Standards. If the statement of fact, opinion, or conclusion is acceptable, place a tickmark (in blue or black) above the item. Enter all questions or comments in a Workpaper Review Sheet (Form 5-02-1).</p> <p>7. As each line of the draft is cleared, places a blue or black tickmark on the right margin adjacent to the line. Uncleared lines will not be ticked, and instead will bear blue or black circled sequential numbers on the right margin. The numbers will be keyed to questions or comments noted on the Review Sheet form.</p> <p>8. On lines referenced in the left margin as "OPINION" or "CONCLUSION", determines whether he or she agrees that the opinion is appropriate or the conclusion can reasonably be inferred from the facts presented in the report. (The reviewer should be able to draw the same conclusion as the writer.)</p> <p>9. Write a comment reference number next to each questioned item.</p> <p>10. Gives the review notes to the In-Charge Auditor for resolution.</p>
In-Charge Auditor/Audit Staff	11. Respond in writing (in the space provided in the Workpaper Review Sheet) to the Independent Report Reviewer's comments and questions. Make changes to the workpapers as necessary.
Independent Report Reviewer	<p>12. Review the audit staff's responses to the Workpaper Review comments. As questions are resolved, draws an "I" bar through the comment on the Review Sheet and the circled number on the draft.</p> <p>13. Refers any unresolved Review Sheet issues to the Supervising Auditor.</p>
Supervising Auditor	14. Resolves Review Sheets issues or refers them to the City Auditor for resolution.
Audit Staff	15. File the Workpaper Review Sheets in the in the Audit Administration Files (Section A of the workpapers).

#### IV-3. AUDIT STANDARDS PLAN PREPARATION AND REVIEW

The objective of the Audit Standards Review is to ensure that an appropriate Audit Standards Plan is prepared and that the Government Auditing Standards as described in the approved Audit Standards Plan are followed. (Use Audit Standards Plan Performance Audits, Form 5-01-1 or Financial Audits, Form 5-01-2.)

The In-Charge Auditor is responsible for ensuring that the audit is performed in accordance with Government Auditing Standards and the City Auditor Operations Manual. The In-Charge Review includes assessing the requirements of the audit assignment and preparing an Audit Standards Plan (Form 5-01-1) to meet those requirements. In the plan, the In-Charge Auditor identifies the audit standards applicable to the audit. The In-Charge Auditor should explain in the plan why certain standards, if any, are not applicable or are to be waived. Subject to the approval of the City Auditor, the In-Charge Auditor may delegate the preparation of the Audit Standards

Plan or other In-Charge Review procedures to another member of the audit team provided that person is sufficiently experienced and competent to perform the task(s).

The Audit Standards Review is performed at three points during the course of the audit. The First Audit Standards Review is performed upon the In-Charge Auditor's completion of the Audit Standards Plan. During the First Review, the reviewer evaluates the adequacy of the In-Charge Auditor's plan. The Second Review occurs upon completion of the applicable General Standards and Field Work Standards as described in the Audit Standards Plan. The Final Review occurs upon completion of the Audit Report, but before its final issuance. The purpose of the Final Review is to ascertain that the audit staff has complied with the applicable General Standards and Reporting Standards as described in the Audit Standards Plan.

#### **IV-3.1 FIRST AUDIT STANDARDS REVIEW (Milestone #M-19)**

##### **Purpose**

To ensure that the audit project complies with the U.S. Comptroller General's *Government Auditing Standards*.

##### **Background**

According to the U.S. Comptroller General's *Government Auditing Standards*, "The internal quality control system established by the audit organization should provide reasonable assurance that it (1) has adopted, and is following, applicable auditing standards and (2) has established, and is following, adequate audit policies and procedures."

To comply with this standard, the audit staff should prepare an **Audit Standards Plan** to document the audit's compliance with each applicable standard.

### Procedure

Audit staff	16. Prepare an audit standards plan using the City Auditor Audit Standards Plan file (Form No. <a href="#">5-01-1</a> ). Completes the Audit Standards Plan by briefly describing how each item in the plan was accomplished and by referencing the plan with annotations or footnotes to the related audit workpapers or audit report section. Identifies the audit standards applicable to the audit. Explains in the Plan why certain standards, if any, are not applicable or are to be waived 17. Modify the Audit Standards Plan to accommodate the needs of the audit assignment.
Supervising Auditor	18. Reviews the Audit Standards Plan and signs it to indicate approval.
Supervising Auditor and City Auditor	19. Assign an auditor who is independent from the audit project's fieldwork and report preparation to review and verify the Audit Standards Plan.
Audit Standards Plan reviewer	20. At this first Audit Standards Review, review the plan for completeness and verify the items completed to-date. 21. Write any questions or comments in an Audit Standards Review Worksheet (Form 5-02-1). Signs off on the Plan to indicate agreement.
Audit Staff	22. Discuss comments with the reviewer and make changes to the Audit Standards Plan as necessary. 23. File the Audit Standards Plan and the reviewer's comments in the Audit Administration File (Section A of the workpapers)..

### IV-3.2. SECOND AUDIT STANDARDS REVIEW (Milestone #M-21)

#### Purpose

To ensure that the audit project complies with the U.S. Comptroller General's *Government Auditing Standards*.

#### Background

The Second Audit Standards Review occurs at the end of the Field Work – Phase II (Evidence Gathering). The intent of the second review is to ascertain that the audit staff has complied with the applicable General Standards and Field Work Standards as described in the **Audit Standards Plan**. This interim review will allow the audit staff to perform any additional work required to satisfy the audit standards before the evidence gathering phase is closed.

### Procedure

Audit staff	24. Update the Audit Standards Plan to reflect the audit work performed upon completion of the Evidence Gathering phase of the fieldwork.
Audit Standards Plan reviewer	25. At the second Audit Standards Review, review the plan for completeness and verify the items completed to-date. 26. Write any additional questions or comments in the Audit Standards Review Worksheet.
Audit Staff	27. Discuss comments with the reviewer and make changes to the Audit Standards Plan and/or perform any additional fieldwork as necessary. 28. File the Audit Standards Plan and the reviewer's comments in the audit workpapers.
Supervising Auditor	Ascertain that the quality control reviews are performed on time and adequately documented. 29.

### IV-3.3. FINAL AUDIT STANDARDS REVIEW (Milestone #M-32)

#### Purpose

To ensure that the audit project complies with the U.S. Comptroller General's *Government Auditing Standards*.

#### Background

The Final Audit Standards Review occurs at the end of the report writing phase. The intent of the final review is to ascertain that the audit staff has complied with the applicable General Standards, Field Work Standards, and Reporting Standards as described in the **Audit Standards Plan**.



## Procedure

Audit staff	30. Update the Audit Standards Plan to reflect the audit work performed upon completion of the Report Writing phase of the audit.
Audit Standards Plan Reviewer	31. At the final Audit Standards Review, review the plan for completeness and verify the remaining items in the Audit Standards Plan that were not verified during the first and second reviews. Write the review comments in an Audit Standards Review Worksheet.
Audit Staff	32. Discuss comments with the reviewer and make changes to the audit report, the Audit Standards Plan or the workpapers, if necessary. Refer any audit report changes and unresolved items to the Supervising Auditor and the City Auditor.
Supervising Auditor and City Auditor	33. Review and approve the audit report changes and decide on any unresolved issues.
Supervising Auditor	34. .Ascertains that the quality control reviews are performed on time and adequately documented
Audit Staff	35. File the Audit Standards Plan and the reviewer's comments in the audit workpapers.
Supervising Auditor and City Auditor	36. . Review the Audit Standards Plan and sign it to indicate approval.

## IV-4. SUPERVISING AUDITOR REVIEW

The Supervising Auditor Review ensures that the quality control reviews are performed on time and adequately documented. Supervisory review usually consists of continuous review of audit work by the appropriate Senior Program Performance Auditor. Supervisory review includes:

- (a) attendance at bi-weekly meetings to monitor audit progress;
- (b) end of preliminary survey meetings to discuss potential risk exposures of organizational unit under review and define areas that warrant audit attention;
- (c) end of fieldwork meetings to review audit results and finalize draft outline;
- (d) review of working papers; and (e) review of draft reports. The Supervising Auditor Review includes the review of workpapers to ensure that the audit workpapers comply with the City Auditor workpaper organization and control guidelines described in Procedure 5-02 and Government Auditing Standards. Subject to the approval of the City Auditor, the Supervising Auditor may delegate the review of workpapers to another member of the audit staff provided that person is sufficiently experienced and competent to perform the task(s).

### Final Workpaper Review (Milestone 31)

#### Purpose

To ensure that workpapers are properly prepared and provide adequate support of the work performed.

#### Background

During the Final Workpaper Review, the Supervising Auditor makes a final review to ascertain that all audit workpapers prepared after the first review meet Government Auditing Standards for form and content.

**Procedure**

<b>Audit Staff</b>	11. Schedule the final Workpaper Review meeting with the Supervising Auditor.
<b>Supervising Auditor (or qualified designed auditor)</b>	<p>12. Review the workpapers for form and content and ascertain that the audit evidence reflected in the audit workpapers can pass the test of evidence. Reviews each workpaper. Ensures that workpapers are organized and indexed in accordance with Procedure 5-02. Ensures that workpapers are complete, accurate, legible, and neat.</p> <p>13. Ensures that each lead workpaper includes the following information:</p> <ul style="list-style-type: none"> <li>-Name of agency, program, or subject of audit, as applicable;</li> <li>-Job number;</li> <li>-Workpaper index number;</li> <li>-Reference to the related Audit Program and Results file (APR) step. (Usually the first part of the workpaper number matches the APR step number and this will suffice, but a separate reference may be necessary when workpaper evidences more than one audit step.);</li> <li>-Name of the auditor preparing the workpaper and date prepared;</li> <li>-Initials of the In-Charge Auditor (if the workpaper was prepared by another auditor);</li> <li>-Subject (title) of the workpaper;</li> <li>-Purpose of the workpaper;</li> <li>-Source of the information;</li> <li>-Legends as appropriate;</li> <li>-Conclusion, summary or results, as appropriate.</li> </ul> <p>14. Reviews the final APR to determine whether the APR has adequately summarized the results reflected in the workpapers. Each step on the APR should referenced to the supporting workpaper and the summary for each audit objective should include the issue, criteria, and conclusions based on the referenced evidence.</p> <p>15. Reviews the workpaper bundles to ensure that they have been labeled in accordance with Procedure 5-02 and that any confidential workpapers have been placed in separate bundles marked "Confidential".Provide the audit staff a Workpaper Review Sheet listing all comments and questions regarding the audit workpapers.</p> <p>16. Reads responses to review notes. As questions are resolved, draws an "I" bar through the comment on the Review Sheet and the circled number on the draft.</p> <p>17. Refers any unresolved Review Sheet issues to the City Auditor</p> <p>18. As each workpaper is cleared, initials the lead workpaper next to the preparing auditor's name. Uncleared workpapers will not be initialed.</p> <p>19. Gives the review notes to the In-Charge Auditor for</p>

	<p>resolution</p> <p>20. Reviews the completed Audit Standards Plan, the workpapers, and the audit report. Signs off on the first page of the Standards Plan to indicate approval</p>
<b>Audit Staff</b>	<p>21. Respond in writing (in the space provided in the Workpaper Review Sheet) to the Supervising Auditor's comments and questions. Make changes to the workpapers as necessary.</p>
<b>Supervising Auditor</b>	<p>22. Review the audit staff's responses to the Workpaper Review Sheet comments. Cross out all comments or questions that are resolved.</p> <p>23. At the conclusion of the audit, receives the boxed workpapers from the In-Charge Auditor for a Final Quality Assurance Review.</p> <p>24. For the Final Quality Assurance Review:</p> <ol style="list-style-type: none"> <li>1) Checks that the binders and boxes are labeled in accordance with Workpaper Organization and Control Procedure 5-02:</li> <li>2) Reviews the first page of the Audit Standards Plan to determine that all the various Quality Control Review sign-offs are completed in accordance with Internal Quality Control Program Procedure 5-01); and Checks to see that all dates and workpaper references have been noted on the Audit Standards Plan).</li> </ol> <p>25. Signs off on the box labels to indicate that the Final Quality Assurance Review has been completed, (See sample of the box label with sign-off lines at Workpaper Organization and Control Procedure 5-02, Attachment 5-02C</p>
<b>City Auditor</b>	<p>26. Resolves Review Sheet issues.</p>
<b>Audit Staff</b>	<p>27. File the Workpaper Review Sheets in the in the Audit Administrative File (Section A of the workpapers).</p>